Section IV

Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Based on the Audit of the Financial Statements

Section Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Based on the Audit of the Financial

Statements

Statewide Finding

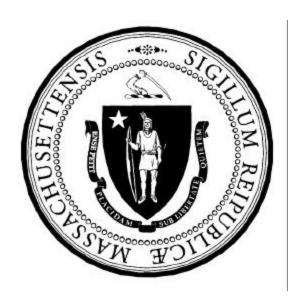
Committee on Criminal Justice

Division of Employment and Training Department of Mental Retardation Department of Public Health

Massachusetts Highway Department Executive Office of Elder Affairs Office of the State Treasurer Institutions of Higher Education Roxbury Community College

Salem State College

Findings Not Repeated From Prior Years



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Statewide Finding Findings on Compliance with Rules and Regulations

Finding Number 1: Non-GAAP Fixed Asset Accounting and Reporting Needs Improvement

The departments of the Commonwealth included in the fiscal year 2002 single audit were not in compliance with Office of the Comptroller (Office) regulations with regard to the accounting and reporting of Non-GAAP (generally accepted accounting principles) fixed assets. Non-GAAP fixed assets are those that fall below the threshold to be reported in the Commonwealth's financial statements.

Beginning in fiscal year 2002 (July 1 2001), the Commonwealth increased the threshold between GAAP and Non-GAAP fixed assets to \$50,000 for most fixed asset transactions. The threshold had previously been \$15,000. With the implementation of GASB Statement Number 34, which required the inclusion of infrastructure assets and depreciation of assets, the Commonwealth took the opportunity to revisit its fixed asset policies and raised the threshold. With the raising of the threshold it became clear that the total value of the Commonwealth's Non-GAAP fixed assets would also be raised and the majority of most departments fixed assets would fall into the Non-GAAP category. In order to maintain effective control over those Non-GAAP fixed assets, the Office issued a policy how those assets were to be tracked by departments.

One of the primary differences in the Commonwealth's policies with regard to these two categories of fixed assets is that all GAAP fixed assets must be recorded in the Fixed Asset Subsystem of the Massachusetts Management Accounting and Reporting System (MMARS) within seven days of acquisition. For Non-GAAP fixed assets, departments have the option of using the Fixed Asset Subsystem to record them or maintaining an inventory of such assets in a department system. The Office's policy and the Fixed Asset Subsystem Policy Manual and User Guide (Guide) are clear for the need of good internal controls to safeguard these assets. Departments do not have an option with regard to the conduct of an annual inventory and a reconciliation of the inventory against the books and records maintained by the department, either on the Fixed Asset Subsystem or the department's system. One of the critical steps in reconciling the results of an annual inventory, regardless of how departments choose to account for such assets, is to be sure that last year's ending balance is the same as this year's beginning balance. In accounting terms, this is referred to as "a roll forward" of fixed assets. A roll forward is a schedule that reports prior year ending balances, identifies additions and deletions of such assets during the year and results in an ending balance that reports all Non-GAAP fixed assets currently owned and used by the department.

Department officials at the departments visited during the audit were aware of Comptroller's Policy Memo #310, Fixed Asset Policies, and the Guide and most did conduct or were in the process of conducting an inventory of their fixed assets. However, none adequately reconciled their Non-GAAP fixed assets to their books and records because none performed the roll forward discussed above. Some department officials were unaware that a roll forward was required to perform an adequate reconciliation and some did not know how to perform one.

Recommendation

The Office of the Comptroller should continue to stress the need for good internal controls to safeguard the Commonwealth's fixed assets. While both the Comptroller's Memo and the Guide stress controls some departments need more guidance and training. Consideration should be given to conducting training on the accounting and reporting of Non-GAAP fixed assets, including the reconciliation of a department inventory to its books and records.

Statewide Finding Findings on Compliance with Rules and Regulations

Finding Number 1: Non-GAAP Fixed Asset Accounting and Reporting Needs Improvement (continued)

Department Corrective Action Plan

Because of the increased threshold for GAAP fixed assets from \$15,000 to \$50,000 for most asset transactions, the majority of fixed assets fell into the Non-GAAP category, raising the total value of the Non-GAAP fixed assets. Although departments integral to the infrastructure reporting requirement participated in the policy changes regarding a "roll forward" of assets, our guidance was insufficient for most departments.

The Office of the Comptroller will communicate with departments during the current fiscal year regarding additional fixed asset procedures to ensure compliance with the roll forward.

Responsible person: Marybeth Newell Implementation date: June 30, 2003

Finding Number 2: Improvements Needed over Fixed Asset Internal Control

The Committee on Criminal Justice (Committee) has not established adequate controls over fixed assets. Specifically, contrary to state regulations, the Committee does not maintain a fixed assets listing which includes historical costs and did not perform an annual inventory. In addition, some fixed assets lacked an individual property control identification tag number.

In accordance with the Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide, the Committee is required to properly manage and safeguard Commonwealth assets, including establishing and maintaining a fixed assets listing (property and equipment) by location including historical costs, conducting a physical inventory of all property and equipment verified and accounted for annually, and reconciling to department records. By not maintaining proper controls over fixed assets and records, there is no assurance that property and equipment is adequately safeguarded against loss, theft or misuse.

The American Institute of Certified Public Accountants (AICPA) Codification of Statements on Auditing Standards (SAS) defines an adequate internal control structure and what is required to properly safeguard the assets of an organization. SAS No. 78 states that management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, record, process, summarize and report financial data that is consistent with management assertions embodied in the financial statements. One of the specific objectives management may wish to consider including in its internal control is that access to assets is permitted only in accordance with management's authorization. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action taken with respect to any differences.

The Committee was not maintaining detailed records of its fixed assets that clearly lists the historical costs and did not affix identifying tags to all of its furniture and equipment items. In addition, the last annual physical count of furniture and equipment for comparison to fixed asset records was conducted about May 2001, however no record of actual dates are noted on the records.

Ten items were selected for our review from the property listing. We located the items. Two items lacked a property identification tag. This was brought to the Committee officials' attention and subsequently corrected. It is undetermined as to whether or not there were any other inventoriable items that were not accounted for on the property listing.

The Committee's Internal Control Plan Section D.4 states:

- "(D) A property officer is designated to provide proper accountability and to facilitate coordination of inventories.
- (E) All equipment is tagged with a number when received and entered into inventory records by Fiscal Specialist.
- (G) An annual inventory report is prepared in accordance with GAAP."

Finding Number 2: Improvements Needed over Fixed Asset Internal Control (continued)

Recommendation

The Committee should establish controls to ensure that its fixed assets are properly safeguarded, valued and reported and that they are in compliance with State and AICPA requirements. These controls should include the maintenance of a cumulative fixed assets listing, including historical cost and location. In addition, all equipment should be properly inventoried and tagged with an individual property identification number and an annual physical inventory should be conducted.

Department Corrective Action Plan

The Committee will establish and maintain a fixed assets listing by location and, whenever permissible, by historical cost. Maintaining and updating the listing will be in compliance with Section D.4, as referenced by the audit results, of the Committee's Internal Control Plan.

Responsible person: Derek Lennon Implementation date: May 2003

Finding Number 3: Payment Vouchers Date Changed

The Committee on Criminal Justice (Committee), in order to enforce the contract requirement of receiving quarterly programmatic and financial quarterly reports for federal monitoring purposes, delayed payments to subrecipients and changed the dates on Payment Vouchers (PV) when inputting the information into the Massachusetts Management Accounting and Reporting System (MMARS).

Office of the Comptroller (OSC) MMARS Memo #289, Commonwealth's Bill Paying Policy, states that it is the goal of the Commonwealth's Bill Paying Policy to pay its bills in 30 days via Electronic Funds Transfer (EFT). The Policy states that, in the absence of a specific contractual or regulatory payment date, the payment date will be approximately 29 days after the (a) date services are rendered, goods received or (b) receipt of invoice, whichever is later. The Policy also requires that all invoices be date stamped as soon as they arrive on Commonwealth property.

Furthermore, the MMARS Memo #289 policy states:

"The department has fifteen (15) days from the receipt of an invoice to notify the vendor with written reason(s) why an invoice has been rejected and identifying requirements to cure the deficiency. If the invoice is incorrect or cannot for good reason be accepted, it should not be held by the department and negotiated, it should be returned to the vendor immediately. The payment day count will begin again from the beginning when a corrected invoice is received by the department."

Of the 50 transactions selected for testing two payment vouchers had the date crossed out and changed to a later date. The dates were changed by five (5) and 83 days later then the original payment voucher date.

Committee personnel stated that the information received from the subrecipients is frequently late and they change the dates on the payment vouchers to coincide with the late received information. This information is necessary for reports that CCJ submits to the Department of Justice (DOJ).

Recommendation

The Committee should not change PV dates and it should review the PVs noted and determine if there is any support for the changes. Additionally, it should document the reason for withholding payments and promptly notify subrecipients in writing of the documentation that is missing and request a new PV that accurately reflects the date of the completed transaction.

Department Corrective Action Plan

To ensure that dates on PVs accurately reflect the corresponding payments to vendors/subrecipients, a new payment voucher policy will be implemented. The department will notify a vendor/subrecipient, via a phone call, within two days of receipt that a PV is incomplete and cannot be processed. If the information required to complete the PV is not submitted to the EOPS Programs Division staff within ten days of the preliminary phone call, staff will send back the original with an attached checklist that specifies what needs to be completed for the transaction to be processed.

Responsible person: Fredrica Braxton

Implementation date: May 2003

Finding Number 4: Contract and Payment Vouchers not in Compliance with Commonwealth Policies

The Committee on Criminal Justice (Committee) contracted with a municipal police department for the establishment of a Drug Task Force. The Task Force work began seven months before there was a fully executed contract. As a result, the dates of services on the payment vouchers prepared by Committee personnel were falsified to generate a payment to the police department because the work was started prior to the execution of the contract. MMARS will not accept a payment transaction with service dates prior to the effective date of the contract.

According to the contract the Task Force was to provide services from November 1, 2000 to September 30, 2001. The authorized representative from the Task Force signed the contract on March 19, 2001 and the Executive Director of the Committee signed the contract on June 20, 2001.

The Commonwealth's standard contract form requires the contract to be signed prior to the start date of the contract and prior to services being rendered as follows:

"Notwithstanding verbal or other representations by the parties, or an earlier start date indicated in a Contract, the effective start date of performance under a contract shall be the date a Contract has been executed by an authorized signatory of the Contractor, the Department, a later date specified in the contract or the date of any approvals required by law or regulation, whichever is later."

The Office of the State Comptroller requires Payment Vouchers (PV) to list the beginning and ending dates of the services rendered. The chart below indicates that the actual dates of service were not reflected on the PV and that the work was started prior to execution of the contract.

Service Dates Per Expenditure Report	Payment Voucher Dates of Service	CCJ Approved Payment Voucher	Amount
		Date	
10/01/00 - 12/31/00	06/20/01 - 06-20/01	06/29/01	\$ 5,091.60
01/01/01 - 03/31/01	06/21/01 - 06/21/01	06/29/01	6,219.88
04/01/01 - 06/30/01	04/01/01 - 06/30/01	08/21/01	8,076.27
Total			<u>\$19,387.75</u>

Recommendation

The Committee should ensure that the standard state contract is signed prior to the start date of the contract and prior to the services being rendered. Accurate information reflecting the actual dates of service should be input to the Commonwealth's MMARS accounting system.

Department Corrective Action Plan

The Byrne Task Force Program is unique because the four-year limitation on funding has been eliminated by federal authorities, in acknowledgement of the fact that ongoing enforcement entities of this nature are an integral component of each state's anti-drug and anti-crime strategy, hence the presumption that task force projects will be supported on an ongoing basis, year to year. Although EOPS attempts to adhere to the federal fiscal year as the required timeline for these projects, certain delays such as those caused by delay in notification of federal award and delays caused by lack of timely and complete response by applicants are inevitable.

Finding Number 4: Contract and Payment Vouchers not in Compliance with Commonwealth Policies (continued)

Department Correction Plan (continued)

The Byrne Program is a reimbursement program by nature, with payments available on a quarterly basis, triggered by submission by the sub-grantee of all required reporting and PV forms. Based upon a program start date of October 1, regardless of actual contract date, the presumption is that the task force has remained active during this interim, has engaged in activities and incurred expenses, and has used matching funds until the first reimbursement possible is made at the conclusion of the first quarter (December 31, with reports due January 15).

With regard to conflicts between the "service" or performance periods and the actual contract dates, and of reimbursement prior to contract, EOPS Programs Division has continued this practice with task forces based on the clarification provided recently by the Office of the State Comptroller on these same issues for the state-funded Community Policing (CP) Grant Program. The Office of the State Comptroller provided language to insert in the CP scope of services that indicated as follows:

"Grantees may use grant funds as reimbursement...even if (services were) performed prior to the actual execution date of the contract or notice of annual award..."

In the foreseeable future, representatives from the EOPS Programs Division will meet with the Office of the State Comptroller to address the above issues in light of the special conditions of the Byrne Task Force Program. In the meantime, the timeline for Byrne Task Force application process will be modified to ensure that contracts are completed in time for an October 1 start up.

Responsible person: Paul Jarosiewicz

Implementation date: June 2003

Division of Employment and Training Findings on Compliance with Rules and Regulations

Finding Number 5: Employers not Assessed Penalties for not Filing Required Returns

The prior audit disclosed that the Division of Employment and Training (Division) needed to improve its procedures for calculating the contributions and interest due for Universal Health Insurance (UHI) and for imposing penalties and fines against employers who are delinquent in the filing of their quarterly UHI reports and/or nonpayment of contributions due. The Division overstated receivables on the Commonwealth's Billing and Accounts Receivable System (BARS) and its own system by \$48,030.35 by billing employers for UHI contributions already paid and incorrectly calculating interest. The Division also did not routinely assess a penalty, in accordance with MGL Chapter 151A, Section 14G(g), on employers for not filing required returns. In addition, the "Health Insurance Revenue Service Refund Voucher/Charge Voucher Adjusting Entry" form used to calculate assessments did not include provision for the names and titles of employees responsible for preparing, approving, reviewing, and entering the information and respective dates. Currently it provides for the preparer only.

The current audit disclosed that the Division has taken the corrective action recommended last year. It instituted a process to review contribution calculations before they are approved for fiscal entry into its system and BARS and revised its "Health Insurance Revenue Service Refund Voucher/Charge Voucher Adjusting Entry" form to reflect the names and titles of the employees which prepared, reviewed and approved the form and enters the data into the system, as well as the date of each of the respective action that took place. However, the Division has not assessed the employers with penalties or fines for not filling returns. MGL Chapter 151A, Section 14G(g) requires the Division to assess employers as follows:

"A penalty equal to 10% of the contribution due under this section; provided, however, that the penalty assessed shall not exceed \$100 nor ...be less than \$25 for each failure..."

During fiscal year 2002, the Division could have assessed \$3,000 in interest calculated at a 12% for the UHI program for non-filers. The associated penalty would have yielded \$2,500 calculated at a 10%. Division officials indicated that assessing interest and penalties for non-filed UHI contribution reports is not cost effective. (Fiscal Year 2001 Report Finding 4)

Recommendation

The Division should conduct and document a cost analysis to determine whether assessing penalties on non-filers as required by MGL Chapter 151A, Section G(g) is cost effective. If the analysis determines that it is not cost effective, the Division should undertake an effort to repeal the penalty section of the law. Until such time, it should impose the penalty as required.

Department Corrective Action Plan

DET will conduct an analysis to determine the cost effectiveness of imposing penalties on employers that fail to file quarterly UHI reports as required by Section 14G.

Responsible person: Richard T. Sullivan, Associate Director

Implementation date: The analysis will be completed by March 1, 2003.

Department of Mental Retardation Findings on Compliance with Rules and Regulations

Finding Number 6: Collection of Accounts Receivable Needs Improvement

The Department of Mental Retardation (Department) needs to improve the collection of its accounts receivable. Our testing involved the review of a \$593.00 Billing Accounts Receivable Subsystem (BARS) Receivable Entry (RE), that was processed on July 16, 1996, for the month of June room and board charge for a resident at an Intensive Care Facility/Mental Retardation (ICF/MR). The person, for whom the receivable entry was made, became a resident of the ICF/MR facility in July 1995 and is currently still a resident.

The Department generates a monthly recurring charge (RE) for care and an invoice, which states the current monthly charge and the total balance due. The latest invoice reviewed, dated July 23, 2002, reflects a total amount due of \$ 49,331.21 from this individual.

In discussion, with the Northeast Regional Revenue Director as to why no collection activity was pursued, he stated that, while the Department's regulations allow for collection activities of all unpaid charges, not all cases of non-payment have been actively pursued.

The Department is allowed to make charges for care for persons in its facilities under Chapter 123b (Mental Retardation) Section 16 (Charges for Care of persons in facilities) of the Massachusetts General Laws (MGL), which states in part: "The department may make charges for the care of any person in its facilities."

The Code of Massachusetts Regulation (CMR) #115 Department of Mental Retardation, Section 3.06 (8) Collection of Charges states in part:

"The Department shall collect charges for residential services and supports from the fee-payer, the Medicaid Program, a third party payor, or any combination of the above."

The Comptroller's Management Regulation (CMR) #815 – 9.05 Department Internal Debt Collection Obligations states in part:

"Departments are responsible for making diligent efforts to collect legislatively authorized accounts receivable and debts due the state. Departments shall maintain detailed records for all accounts receivable, debts and other legislatively authorized charges for goods or services."

The Internal Control Manual of the Department of Mental Retardation addresses the collection of receivables. In Chapter 4, sub section B, Accounts Receivable/Control Activities it states:

"The follow-up of aged receivables along with an aggressive collection policy should be a management priority."

Failure to comply with its own internal control policy and the State Comptroller's policies concerning the collection of accounts receivable, could result it the Commonwealth not receiving income it is entitled to.

Recommendation

The Department should review the receivable in question to determine if it is valid. If it is, collection should take place. If it is determined that the receivable is not valid or is uncollectible, it should be written off. The Department should comply with Massachusetts General Laws, the State Comptroller's Regulations regarding the collection of charges for care balances, its own Internal Control Policies, and diligently and aggressively pursue the collection of balances due from all residents.

Department of Mental Retardation Findings on Compliance with Rules and Regulations

Finding Number 6: Collection of Accounts Receivable Needs Improvement (continued)

Department Corrective Action Plan

Over the past year, the Department of Mental Retardation has increased its efforts to collect outstanding revenue owed the Department for charges-for-care. The Department essentially has two courses of action it takes to address outstanding balances. The first is to make calls and send letters to the individuals or guardians (in most cases) demanding payment. If we are unsuccessful in this attempt to receive payment, the Department can petition the Social Security Administration to change the payee from the individual or guardian to the Department of Mental Retardation. We must present evidence to Social Security that the client's room and board are not being paid. Since the Social Security Administration's first priority is to pay room and board, we are almost always successful with these claims. If these avenues are unsuccessful, legal action may be taken but this tends to be time consuming and more costly than the amounts owed, as the process is lengthy and requires participation by the Attorney General's Office.

It should be noted that this does not resolve the outstanding receivable owed the Department, but it does prevent the amount from increasing. As a rule, we do not write off these outstanding receivables while the client is alive. We allow the receivable to remain on the Commonwealth's ledger because the Department will make a claim on the client's estate upon death. We are relatively successful at collecting old debt this way.

Each region is at a different stage with regard to this outstanding receivable process. As a result of this finding, the Department will step up its efforts to collect outstanding receivables over the course of the next year. It is our hope to either have collected much of the outstanding debt or stopped the debt from accruing in all cases because the Social Security checks are coming directly to the Department.

Responsible person: Jeanette Maillet, Assistant Commissioner

Implementation date: Fiscal Year 2003

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 7: Backdated Payment Vouchers

The Department of Public Health (Department), in order to get payments to providers faster, backdated the date that the provider furnished on the Payment Voucher (PV) when inputting the information into the Massachusetts Management Accounting and Reporting System (MMARS).

Office of the Comptroller (OSC) MMARS Memo #289, Commonwealth's Bill Paying Policy, states that it is the goal of the Commonwealth's Bill Paying Policy to pay its bills in 30 days via Electronic Funds Transfer (EFT). The Policy states that, in the absence of a specific contractual or regulatory payment date, the payment date will be approximately 29 calendar days after the (a) date services are rendered, goods received or (b) receipt of invoice, whichever is later. The Policy also requires that all invoices be date stamped as soon as they arrive on Commonwealth property.

Of the 25 Special Supplemental Nutrition Program for Women, Infants and Children PVs selected for testing, five had the date provided by the provider changed to an earlier date when Department personnel input the PV information into MMARS. The Department did comply with the Bill Paying Policy by having all of the PVs date stamped and it should be noted that the date stamp date was the same as the date provided by the provider. The changed dates ranged from 6 to 14 days earlier than the original date. Department personnel did not document the reason for the change and could not support the change but explained that providers generally needed the cash as quickly as possible to continue operations. Consequently, by changing the date, the provider was paid earlier than it would have been had the original date been used.

Recommendation

The Department should review the PVs noted and determine if there is any support for the changes. Additionally, it should review its procedures for approving PVs to ensure that there are no unsupported changes in the PV date box to comply with the Commonwealth's Bill Paying Policy.

Department Corrective Action Plan

All fiscal staff that pays invoices as part of their job function have been informed not to pre-date Payment Voucher (PV). They must adhere to the policy as stated in the Office of the Comptroller's (OSC) memorandum (MMARS Memo #289) dated October 29, 1999 "Commonwealth's Bill Paying Policy". As stated in the policy the PV must be date stamped as soon as the invoice arrives on Commonwealth property. This will be the official PV date on the Payment Voucher and starts the payment clock running. If for some critical reason a payment must go out before the payment cycle established in MMARS, the "Schedule Payment Date" field would be used to accelerate the payment process.

Responsible person: George Trubiano, Acting Director of Accounting

Implementation date: September 15, 2002

Massachusetts Highway Department Findings on Reportable Conditions

Finding Number 8: Oversight of the Owner Controlled Insurance Program Needs to be Improved

The Massachusetts Highway Department (Department), in conjunction with the Massachusetts Turnpike Authority (Authority), needs to continue to improve the oversight over the recording and financial reporting of Commonwealth of Massachusetts assets held in the Owner Controlled Insurance Program (OCIP). The OCIP was established in 1992 to provide a vehicle for the Commonwealth to assume responsibility for providing workers' compensation and general liability insurance coverage for all eligible contractors and subcontractors working on the Central Artery/Third Harbor Tunnel Project (the Project). In 1996, the Department established a Trust, managed and administered by an independent third party (Trustee), to protect Project assets set aside to fund liabilities for worker's compensation and general liability claims, as well as administrative expenses and certain defined contingencies under the OCIP. The Department entered into an agreement with the Authority to manage the operations of the Project, including the OCIP. An insurance company manages and processes the workers' compensation and general liability -claims and provides excess liability coverage for the OCIP.

The Authority has taken numerous steps in the past year to improve the oversight associated with the financial accountability and reporting of certain assets held in the OCIP. Among the steps taken included the hiring of an Internal Control Director, an independent CPA firm to conduct an annual audit of the OCIP, a separate CPA firm to record the OCIP's transactions as well as prepare financial statements and an independent actuary to develop estimates of the OCIP's claims liability. In addition, the role of the Risk Management Director was enhanced. However, the reporting of all OCIP assets requires further oversight and improvement.

In establishing the OCIP an agreement was reached with the insurance company that allowed it to maintain a pool of funds, separate from the funds included in the Trust, to be available to pay general liability claims resulting from work on the Project. By entering into this agreement the insurance premiums paid by the Commonwealth were reduced. The original agreement was signed in 1992 and two new agreements have been signed since then. The 1992 agreement, covering policy years 1992 to 1995, allowed the insurance company to hold these funds from the time it received them until the end of the project but the funds had to be available to pay losses at any time. The next agreement covered the policy years 1996 to 1998 and the funds given to the insurance company were adjusted downward to compensate for general liability losses incurred. The third agreement covers the policy years 1998 to 2005 and the insurance company holdings are to be further reduced so that it only holds the payments for general liability claims anticipated over the next 12 months.

The amount of the unexpended funds held by the insurance company as of June 30, 2002 not included in the Trust amounted to approximately \$56 million dollars. As indicated above, these funds have been accumulating since 1992 and were not recorded in the Trust's fiscal year 2001 financial statements or otherwise reported to the Office of the Comptroller as assets of the Commonwealth and accordingly, not included in the Commonwealth's 2001 financial statements, causing them to be restated in the current year. This omission occurred because there was some confusion at the Authority and the Department as to whether the funds actually existed, since there was no reporting required by the insurance company. It wasn't until April or May of 2002 that the Authority's Director of Risk Management, in attempting to reconcile the year's operations with the amount recorded in the Trust Fund, uncovered this additional pool of funds maintained by the insurance company and not recorded as part of the OCIP. Even after this discovery,

Massachusetts Highway Department Findings on Reportable Conditions

Finding Number 8: Oversight of the Owner Controlled Insurance Program Needs to be Improved (continued)

a number of months passed determining the exact amount of these funds and informing all involved parties including the U.S. Department of Transportation. As a result, completion of the June 30, 2002 audit of the OCIP has been delayed thereby delaying completion of the Commonwealth's fiscal year 2002 audit. Discussions with Authority officials indicated that the insurance company, by terms of its agreement, is not required to provide them with an accounting of these funds nor does the Project have an independent system to ensure the proper tracking of the Commonwealth's assets and liabilities.

It should also be noted that the 1998 – 2005 workers' compensation and general liability agreements were not formally executed until May and October of 2002, respectively. The lack of formally executed agreements for a project of this magnitude leaves the Commonwealth exposed to a number of potential risks including non-performance and loss.

Recommendation

The Authority should require the insurance company to provide a monthly accounting of the operations of the funds it holds for the OCIP and the Commonwealth of Massachusetts. This accounting should also be made available to the CPA firm responsible for recording the OCIP transactions as well as the firm responsible for the audit of the OCIP. The Authority should maintain an independent process to verify that all payments to the insurer are in accordance with the agreement.

Additionally, any future agreements should be formally executed prior to their effective dates.

Department Corrective Action Plan

As noted in the finding, the Authority in conjunction with the Department has implemented "... the hiring of an Internal Control Director, an independent CPA firm to conduct an annual audit of the OCIP, a separate CPA firm to record the OCIP's transactions as well as prepare financial statements and an independent actuary to develop estimates of the OCIP's claims liability. In addition, the role of the Risk Management Director was enhanced." The aforementioned steps were implemented as part of a corrective action plan in response to a similar finding in the FY 2001 Single State Audit. As expected, the implementation of this aggressive corrective action plan revealed issues requiring resolution. Many of the issues were resolved in a timely manner while the final product (audit and financial statements) was delayed due to lack of availability of documents from the insurance provider. The documentation has since been received and reviewed. The most recent audit has been completed and a set of financial statements has been prepared. The completion of these tasks will facilitate the distribution of periodic status reports outlining the financial condition and transactions of the OCIP. The Department will continue to work with the Authority to maintain compliance with the established protocols and ensure the availability of documents necessary to adequately monitor the transactions and financial condition of the OCIP.

Responsible person: Michael Byrne (MassHighway) Ron Grenier (Mass. Turnpike Authority)

Implementation date: Ongoing

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 9: Inadequate Internal Controls over Fixed Assets

The Executive Office of Elder Affairs (Office) has still not established adequate controls over fixed assets. As disclosed in the fiscal year 2001 audit, contrary to state regulations, the Office does not maintain a fixed assets listing which includes dates of acquisition, historical costs and source of funds, and did not complete a reconciliation of the annual inventory to the inventory listing. The fiscal year 2002 audit noted that the inventory listing for computers and database equipment lacked the dates of acquisition while the inventory listing for other fixed assets lacked historical cost data, dates of acquisition and funding sources. In addition, the fixed asset listing was not reconciled to the actual physical inventory records. Office personnel stated that an actual inventory was completed in June 2002 for fixed assets and November 2001 for computer and database equipment; however, neither listing recorded the dates of the last actual inventory nor was there any comparison to database records.

In accordance with the State Comptroller's Internal Control Guides and the Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide, the Office is required to properly manage and safeguard Commonwealth assets, including establishing and maintaining a fixed assets listing (property and equipment) by location including historical costs and acquisition date, conducting a physical inventory of all property and equipment verified and accounted for annually and reconciling to department records. By not maintaining proper controls over fixed assets and records, there is no assurance that property and equipment is adequately safeguarded against loss, theft or misuse.

The American Institute of Certified Public Accountants (AICPA) Codification of Statements on Auditing Standards (SAS) defines an adequate internal control structure and what is required to properly safeguard the assets of an organization. SAS No. 78 states that management is responsible for adopting sound accounting policies and for establishing and maintaining internal control to record, process, summarize and report financial data that is consistent with management assertions embodied in the financial statements. One of the specific objectives management may wish to consider including in its internal control is access to assets is permitted only in accordance with management's authorization. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action taken with respect to any differences.

The Office initiated a detailed fixed asset listing, including dates of acquisition and historical costs; however the listing is incomplete because the process of compiling the necessary data from other records has not been completed. The Office purchased new inventory property identification tags; however the tagging of fixed assets has not been completed. Computer and database equipment is identified by the manufacturer serial number while plastic strip inventory number tags identify other fixed assets. Agency officials cited the lack of staff and time for not completing the review of inventory records, the fixed asset listing and tagging equipment with an identification number.

Our testing included ten items selected from the property listing and ten from the computer listing to confirm their existence and trace the assets from the listing to their physical location. One item could not be located, one lacked a property identification tag and three, including two computers, had identification numbers on them that did not agree to the identification numbers on the listing. (Fiscal Year 2001 Report Finding 5)

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 9: Inadequate Internal Controls over Fixed Assets (continued)

Recommendation

The Office should establish controls to ensure that its fixed assets are properly safeguarded, valued and reported and that they are in compliance with State and AICPA requirements. These controls should include the maintenance of a cumulative fixed assets listing including dates of purchase, historical cost and source of acquisition. In addition, all equipment should be properly inventoried and tagged with an individual property identification number and a physical inventory should be conducted comparing physical assets to inventory listings.

Department Corrective Action Plan

Elder Affairs has set up new fixed asset inventory spreadsheets which include the following information: Item, Inventory Number, Cost, Purchase order/Encumbrance Number, Account Number, Acquisition and disposal dates, Make, model, and Serial Number, where applicable. Entry of historical data into these spreadsheets will be completed by December 31, 2002.

Elder Affairs will use the metal state inventory tags for all computer equipment and large office furniture items. Re-tagging of these items with the metal tags will be completed by December 31, 2002. Elder Affairs will continue to use the current tags for chairs and small items.

After the re-tagging is completed, Elder Affairs will complete the entry of new inventory numbers into the fixed asset inventory spreadsheets by February 28, 2003.

<u>NOTE</u>: The "item that could not be located" mentioned in the finding is a small round table that had been moved to a different office and was found there shortly after the auditors' walk-through.

Responsible person: Sheila Springfield, Business Manager

Implementation date: February 28, 2003

Finding Number 10: Office of the State Treasurer's Cash Management Operations Need Improvement

While the Office of the State Treasurer ("Treasury") maintains a system of reconciling daily cash balances in its bank accounts to the Treasury Cash Management System ("CMS"), the controls and procedures adhered to by the Treasury to ensure an accurate and timely transmission of data from CMS to the Massachusetts Management Accounting and Reporting System ("MMARS") are lacking and/or in need of improvement. A reconciliation process between CMS and MMARS is required, because the respective systems are separate and distinct from one another: MMARS represents the official books and records of the Commonwealth, CMS produces a series of outputs including daily cash sheets ("cash sheets"), a reconciler's summary report and a Treasury trial balance, which are all reconciled to the bank on a daily basis. CMS also transmits an interface to MMARS, which is summarized by transaction type. This transmission to MMARS includes certain journal entries ("book entries") that do not affect the bank balances. Although the current CMS system features a balancing mechanism, which displays incorrect cash entries as errors on the CMS cash sheets, the system does not have a similar mechanism to identify incorrect book entries, which can sometimes lead to variances within CMS and the interface. During the course of our audit procedures, it came to our attention that there were variances between the "CMS interface to MMARS" and trial balance maintained at the Treasury. While the bank balances recorded in CMS were properly verified, certain book entries transmitted to MMARS were incorrect. As a result of these control deficiencies and other limitations within CMS, errors occurred and were undetected in the normal course of operations and therefore not properly passed to MMARS. These errors, resolved almost three and one-half months subsequent to the Commonwealth's year-end, were identified and resolved in a time-consuming effort on the part of personnel from the Treasury, Office of the State Comptroller ("OSC") and independent auditors.

The overall reconciliation process followed by the Treasury is a two-step process, which is extremely time consuming and cumbersome due to the volume and nature of all cash transactions processed and certain CMS limitations. In the first step of this process, the Treasury performs daily reconciliations of cash balances reported in CMS to cash balances in the Commonwealth's bank accounts. A daily computer generated report detailing cash by bank account is produced evidencing this process. Items recorded on bank and not on book, items recorded on book and not on bank and cash in the bank that is not recorded on CMS ("carries") are summarized, and researched throughout the year.

The second step to the process requires a separate reconciliation of cash balances reported in CMS to the cash balances reported in MMARS. Currently, this reconciliation is performed daily and initiated by OSC. A computer-generated report detailing cash as recorded in CMS is utilized. The process requires certain information as processed within CMS to be uploaded by the Treasury to MMARS for Commonwealth accounting and reporting purposes. If entries are rejected (e.g. miscoded items or an error in the account crosswalk from CMS to MMARS) in this upload, they are recorded in a default account within MMARS to await resolution by OSC. The proper recording of cash balances in both CMS and MMARS is highly dependent on the accuracy of these reconciliations. Upon identification of carries or discrepancies, correcting entries to CMS and/or MMARS are initiated, recorded and reviewed jointly by the Treasury and OSC on a timely basis to avoid carrying such differences forward for extended periods of time.

Finding Number 10: Office of the State Treasurer's Cash Management Operations Need Improvement (continued)

In performing the CMS to MMARS reconciliation as of June 30, 2002, it was discovered that a control within the Treasury reconciliation process had lapsed and, consequently, an error in the CMS interface to MMARS balance went undetected for an extended period of time, resulting in a significant unidentified item that was not recorded in CMS and accordingly not properly passed to MMARS. Treasury officials have advised us that they have since implemented a reconciliation process requiring daily balancing of cash and supporting entries as reported on the bank report and the Treasury trial balance to the cash and book entries transmitted to MMARS, mitigating the potential for this type of error reoccurring in the future.

These reconciliation issues are exacerbated as the result of certain system limitations that exist in the CMS system. The Treasury's current cash management system was developed in 1991 and has undergone numerous modifications. Notwithstanding, manual intervention and reviews continue to be required. In various instances, as previously mentioned, incorrect book entries that were uploaded to MMARS did not show up on the CMS cash sheets as an error, and therefore, required manual reviews and journal entries were not performed on a timely basis resulting in further reconciling items. For example, transactions that are in excess of six figures (e.g. interest income recordings) require manual journal entries because CMS does not recognize balances greater than six digits in length. Additionally, although a review of journal entries is evidenced with dual signatures, in several instances, it was noted that the journal entries were recorded incorrectly, causing several discrepancies in the reconciliation process.

These control deficiencies and system limitations hamper the abilities of personnel in both the Treasury and OSC to effectively manage information relating to Treasury operations in a timely manner. However, more timely reconciliations of the MMARS to Treasury balances, which represents a bridge between the two systems, and improvements to the design of the reconciliation process will lead to an accurate resolution of any discrepancies that may arise.

Recommendation

It may be the appropriate time to consider integrating Treasury CMS to MMARS. The opportunity to do this has been limited by certain system limitations on both systems. Both MMARS and CMS are relatively old systems that have not taken advantage of new technology and software advancements. The Office of the State Comptroller has since initiated an extensive upgrade to new MMARS, which has an expected implementation date of May 2004. Treasury has advised us that they have participated in a review of potential integration opportunities. This integration would eliminate the need for a separate Treasury system and certainly would eliminate the need for the cumbersome reconciliation process that now exists. Until such time as this integration process can be completed, Treasury needs to continue to implement the reconciliation procedures that they have advised us about in order to ensure that timely reconciliations are performed of information as reported in the cash management system to MMARS. Additionally, corrections, as required, must be initiated and reviewed by all parties within Treasury and OSC to ensure the accuracy of the reconciliation process.

Finding Number 10: Office of the State Treasurer's Cash Management Operations Need Improvement (continued)

Recommendation (continued)

There are several steps that the Office of the State Treasurer should take in order to ensure that these deficiencies and limitations are corrected. They are as follows:

- 1. Treasury should review its current reconciliation procedures as they interface with MMARS and initiate a top down review of existing controls and reconciliation procedures. The objective of Treasury's review should be to create a single reconciliation that ties balances reported by the bank to balances reported on CMS then to balances reported in MMARS. Such reconciliation should be performed on at least a monthly basis and will need to involve both Treasury and OSC. This reconciliation should be reviewed and signed off by both Treasury and OSC. These reconciliation procedures should include steps to ensure that any adjustments that arise out of the reconciliation process are reviewed and recorded in a timely manner and that reconciling items in all steps of the process are not carried for more than 60 days. Assuming that a MMARS and CMS systems integration takes place, a more streamlined approach may be available and a comprehensive review of reconciling procedures should be developed from this opportunity.
- 2. Treasury should evaluate steps that can be taken now to address the system limitations that have been noted above.
- 3. We have been advised that over the last year Treasury personnel have participated in a series of Business Process Improvement Work Group meetings with OSC to develop recommendations to effectively integrate these systems in new MMARS. It is strongly recommended that this process continue.
- 4. Treasury should set up a reconciliation holding account on CMS similar to the default account on MMARS and upload information in this account from CMS to MMARS on a daily basis.

Department Corrective Action Plan

Treasury had already begun a comprehensive review of current processes as they relate to MMARS and will continue to review the integration opportunities with the both the existing and planned upgraded MMARS system. Treasury has participated in a series of work groups and senior staff serve on the steering and executive committees of the new MMARS upgrade project. CMS is comprised of three primary sub-systems: ARECS (moves deposits from local agency bank accounts to the TRE concentration account), SEC (manages purchase and sale of investments), MISC (expenditure refunds, contract refunds, payroll refunds, CMIA). Treasury is exploring options for all three. A number of opportunities exist to reduce the need for dual systems. Some of these may, however, require significant lead time for development.

In the interim, Cash Management immediately implemented a daily reconciliation of the CMS balances to the CMS interface to MMARS. No further discrepancies have been identified. Additional procedures for a formal recommendation with OSC staff are being developed to deal with any such out of balance conditions should they occur. The establishment of a "default" account on CMS will be added to the system to facilitate this reconciliation which will be completed daily. One of the major issues with reconciliation is timing. Entries made on the CMS system are interfaced into MMARS through a process that takes two days. As a result reviews conducted in the work groups cited above, new procedures have been identified that can reduce this to one day, eliminating some of the timing differences and enhancing user department information.

Finding Number 10: Office of the State Treasurer's Cash Management Operations Need Improvement (continued)

Department Corrective Action Plan (continued)

In addition to improved systems and reconciliation steps in the daily process, the monthly reconciliation process currently independently completed by Office of the State Comptroller and Treasury respectively will be done jointly by staff from both departments encompassing a review of the MMARS data to the CMS trial balance to the treasury systems that feed CMS. The review will involve a two-step level of review on a monthly basis with final approval by the Deputy Treasurer and the Deputy Comptroller.

Responsible person: Elizabeth A. Pearce

Implementation date: March 2003

Finding Number 11: Non-Appropriated Fund Activity and Balances not Reconciled Monthly

Prior audit reports starting in fiscal year 1995 have disclosed that Roxbury Community College (College) had not been entering and reconciling its Non-Appropriated Fund [Fund 901] activity monthly, as required by Commonwealth laws and regulations. To comply, the College should have reconciled the Massachusetts Management Accounting and Reporting System (MMARS) 110H Report with its internal records on a monthly basis. This condition was still an issue during the fiscal year 2002 despite assurances that corrective action would be taken by the College.

Our prior audit showed that the reconciliation process consisted of the College's trust fund accountant inputting adjustments into MMARS so that the MMARS records agreed with the College's Trust Account records. No explanations, details, or other documentation accompanied the adjustments, nor was the accountant able to explain the adjustments. A review of the reconciliations disclosed that adjustments were based on the need to adjust the MMARS records to agree with the College's in-house trust records. The College stated in its Corrective Action Plan for the fiscal year 2001 Single Audit:

"The College must (a) input and reconcile its Non-Appropriated Fund [Fund 901-Trust Funds] activity on a monthly basis, and (b) reconcile the College's funds with the MMARS 110H Report on a monthly basis, and (c) document any adjustments required. This process will be easier to accomplish when the new Jenzabar software is used regularly which is scheduled to occur on July 1, 2002. In the meantime, we will attempt to do this on a monthly basis. However, we will specifically agree to perform these activities by July 31, 2002. This will be accomplished by enabling the director of finance more time to carry out these duties than was previously possible. Billing and financial aid adjustments have been transferred to other staff within the Business Office to enable this. The College will continue to improve its reconciliation process in this area."

The current audit disclosed that as of October 1, 2002 the College has made some improvement and has completed reconciliations through March 31, 2002 for its Non-Appropriated Fund Activity. The College indicated that it made improvements as follows:

"The College was able to improve its performance during the past fiscal year but we have not been able to maintain the reconciliation consistently on a monthly basis, such as performing the reconciliation within 30 days after receiving the bank statements for the Trust Fund Accounts. Part of the delay is attributed to staffing shortages and pressing time commitments for state and private audits, other business responsibilities, and financial report status. We have completed the reconciliations through March 31, 2002 as of this date, and are working on the final quarter for FY 2002. Specifically, we are completing the fiscal 2002 entry and reconciliation process on MMARS and hope to have this completed by October 15, 2002. We recognize that we should be reconciling July's activity at this time. In response to the FY 2001 finding, we stated that the reconciliation process would be easier to accomplish with the new Jenzabar software that has been installed (Roxbury "went live" July 1, 2002) and is functioning properly. This continues to

Finding Number 11: Non-Appropriated Fund Activity and Balances not Reconciled Monthly (continued)

be a valid statement. We are waiting for the finalization of FY 2002 figures before placing all trust funds onto the Jenzabar system. Another factor that should assist in the timely reconciliation process is the alteration of staff responsibilities necessitated by the implementation of the Jenzabar system and the departure of three support staff members in the Business Office since March 2002. Not withstanding these issues, the College will continue to improve its reconciliation process in this area." (Fiscal Year 1995; 2001 Report Finding 7)

Recommendation

The College should continue to take corrective action by updating and reconciling non-appropriated funds in MMARS. The College should continue to input and reconcile its Fund 901 activity on a monthly basis. Finally, the College should perform a final reconciliation of their fiscal year 2002 Fund 901 activity and account balances with MMARS and prepare and document whatever adjustments are required. This is extremely important in the cross over to the new Jenzabar system in order for the College to establish a clear audit trail with correct balances and details of reported activity.

Department Corrective Action Plan

As stated by the College in its response to the fiscal year 2001 single state audit findings, the reconciliation process among non-appropriated funds will be easier to accomplish in fiscal year 2003 with the new Jenzabar administrative and financial software that was installed as of July 1, 2002. We also stated that we were waiting for the finalization of the fiscal year 2002 figures before placing all trust funds onto the Jenzabar system.

In addition to the above statement, which continues to be valid, is the importance of the General Ledger (GL) which has been incorporated into the Jenzabar software. Prior to the installation of the new software, Roxbury Community College did not have a General Ledger in the previous financial system and this deficiency had been cited in previous audits. The GL will correct inefficiencies in virtually all processing of financial information.

We recognize the need to perform a final reconciliation of our fiscal year 2002 Fund 901 activity and will do so by December 1, 2002.

Responsible person: Craig Zaehring, Director of Budget, and

Dr. William Fenstemacher, Vice President for Finance

Implementation date: December 1, 2002 for the reconciliation of fiscal year 2002 trust fund

Information; June 30, 2002 for the trust fund information through

April 30, 2002

Finding Number 12: Internal Control Plan Needs to be Updated

Roxbury Community College (College) did not have an updated internal control plan in accordance with Chapter 647 of the Acts of 1989, which outlines internal control standards that:

"... define the minimum level of internal control systems in operation throughout the various state agencies and departments ... and it constitutes ... the criteria against which such internal control systems will be evaluated."

Chapter 647 details the important elements of an effective system of controls as a guide for the College to consider when completing its plan. An internal control plan should identify all of the College's operating cycles and discuss such components of internal control as control environment, risk assessment, control activities, information, and communication and monitoring for each cycle. Chapter 647 stipulates that the College designate an individual whose responsibilities include ensuring that the College has written documentation of its accounting and administrative control systems on file and, at least annually, evaluate and implement any changes necessary to maintain the integrity and effectiveness of the system.

Chapter 647 required that College have this written documentation of its accounting and administrative controls in accordance with the guidelines issued by the Office of the State Comptroller (OSC). The OSC has issued guidelines and provides training to assist state agencies in developing internal control plans and agencywide risk assessments.

The OSC Internal Control Guide for Departments, Volume II defines an internal control plan as: "A high level summarization on a department-wide basis, of the department's risk (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. The high level summary must be supported by lower level detail, i.e., departmental policies and procedures. This summary would usually be from ten to fifty pages in length depending on the size and complexity of the department."

At the initiation of our audit in July 2002, the College was not able to provide us with an updated internal control plan. The Fiscal Affairs Office had developed an internal control plan, however, it did not discuss all of the components of internal control or all of the College's operating cycles. The College does have an array of standard operating procedures for both fiscal and non-fiscal activities, which include manuals and policy directives to inform staff of certain control activities, methods of communication, and internal monitoring procedures, which are elements of sound internal controls. The College, however, has not cross referenced those procedures and directives into its plan and has not fully utilized and applied the guidelines set forth by the Comptroller's Office.

The College also provided a document called a risk assessment that was developed in October 2002. This risk assessment was not included as part of the internal control plan.

The College has yet to formulate and revise its plan by updating and including applications and controls relative to its newly installed Jenzabar (July 1, 2002) operating system a key activity within the College's operating environment. Inclusion of the operational system and its relative risks and controls of those risks into the plan at the time of full implementation is an important internal control component.

Finding Number 12: Internal Control Plan Needs to be Updated (continued)

Updating the plan is important for Roxbury Community College to quantify the integrity and effectiveness of its internal control system and to respond to changes in its internal control system while maintaining the system's effectiveness.

Subsequent to our audit period, the College contacted Comptroller Office personnel for assistance and has commenced to organize and update its internal control plan along with revising its risk assessment.

Recommendation

Roxbury Community College must update its Internal Control Plan to include all components of internal control as well as an appropriate college-wide risk assessment. The overall plan must focus on all phases of its operations at all levels. The College should promptly address significant changes in any components, applications, systems, personnel, and control environment.

Department Corrective Action Plan

The institutional risk assessment/internal control document was prepared and reviewed by Mr. William Walsh of the State Comptroller's Office to his satisfaction on September 26, 2002. The next step will be for the College to indicate actions intended to reduce the risks from occurring, and, should they occur, an explanation of the plans in place to resolve the issues immediately so the College may continue to serve its mission.

Responsible person: Dr. William Fenstemacher, Vice President for Finance, and

Carl Willis. Associate Vice President for Business and Finance

Implementation date: December 15, 2002 for the statement of actions intended to reduce

the risk from occurring. Information will be forwarded to Mr. Walsh, Department Assistance Bureau in the Comptroller's Office for review.

Institutions of Higher Education Salem State College Findings on Compliance with Rules and Regulations

Finding Number 13: Internal Control Plan Needs to be Updated

The Salem State College (College) does not have an updated Internal Control Plan (Plan) in accordance with Massachusetts General Laws, Chapter 647, State Agencies Internal Control Act of 1989, (Chapter 647). Chapter 647 requires that the College have written documentation of its accounting and administrative controls in accordance with the guidelines issued by the Office of the State Comptroller (OSC).

The OSC Internal Control Guide for Departments, Volume II defines an internal control plan as: "A high level summarization on a department-wide basis, of the department's risk (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. The high level summary must be supported by lower level detail, i.e., departmental policies and procedures. This summary would usually be from ten to fifty pages in length depending on the size and complexity of the department."

On January 25, 2002, the College established a work plan for developing a Plan. The work plan did not contain a timetable for accomplishing the stated tasks. At the initiation of the audit on June 18, 2002, the College was not able to provide us an updated Plan. On July 23, 2002, the College provided a risk assessment document and on September 17, 2002 delivered twenty manuals (20) with a cover page entitled "Components of Updated Internal Control Plan." A review of these documents disclosed the following:

The various bound documents included procedure manuals, policy memos and publications of the Office of the State Comptroller and an Internal Control Manual dated 1998. Either alone or in combination, none of these manuals discussed internal controls in terms of the requirements of the OSC guidance (control environment, risk assessment, information and communication, control activities and monitoring.)

The portion of the College's Risk Assessment document that dealt with financial risks was not linked with any of the procedure manuals discussed above. Moreover, financial risks were not discussed in terms of accounting cycles (accounts receivable/cash receipts accounts payable/cash disbursements) or financial statements captions and did not address the college's accounting system and computer operations. (Fiscal Year 2001 Report Finding 8)

Recommendation

The College needs to develop an Internal Control Plan that complies with Chapter 647 of the Acts of 1989 and OSC guidelines. The Risk Assessment should be enhanced so that financial risks are linked to procedures manuals and discussed in the context of the financial cycles.

Department Corrective Action Plan

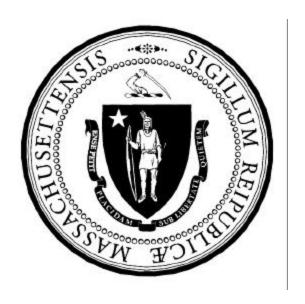
We do agree that the financial risks noted in the *Risk Assessment* need to be expanded to clearly address the accounting cycles, financial statements, and, the college's accounting system and computer operations. We will then update our Internal Control Plan and the supporting policies and procedures manuals.

Responsible person: John F.X. Donovan, Executive Director of Financial Services

Implementation date: February 28, 2003

Various Departments Findings not Repeated from Prior Years

- 1. The Department of Public Health (Department) did not record a fixed asset onto the Massachusetts Accounting and Reporting System (MMARS) in a timely manner. No such instances were noted during the fiscal year 2002 single audit. (Fiscal Year 2001 Report Finding 2)
- 2. The Department of Social Services (Department) needed to complete its internal control plan beginning with the documentation of its department-wide risks. As indicated above, a risk assessment is to identify and analyze the risks that could prevent the Department from reaching its goals and objectives. A major part of the Department's goals and objectives is to find adequate foster homes for the children who require it. Inadequate controls over procurement and budgeting/forecasting could keep the Department from reaching its goals and should be included as two of the risks in the department-wide risk assessment. The Department completed a department-wide risk assessment for incorporation into its internal control plan. (Fiscal Year 2001 Report Finding 3)
- 3. Massasoit Community College (College) needed to improve its recording of fixed assets in accordance with requirements of the Massachusetts Office of the Comptroller. The College implemented the fixed asset module of its Bannar system in November 2001. (Fiscal Year 2001 Report Finding Number 6)



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